

## Message Text

CONFIDENTIAL

PAGE 01 GEORGE 02079 01 OF 02 251850Z

44

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 105820

O 221530Z NOV 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC IMMEDIATE 587

C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 2079

EXDIS

C O R R E C T E D C O P Y (PARA 6.)

E.O. 11652: GDS

TAGS: EMIN, EINV, GY

SUBJECT: REYNOLDS

DEPT PASS OPIC

SUMMARY: AMBASSADOR AND OPIC REP CECIL HUNT MET FOR ALMOST TWO HOURS AFTERNOON NOV 21 WITH MINMINES JACK AND OTHER GOG OFFICIALS. ATMOSPHERE OF MEETING WAS VERY GOOD. SUBSTANTIAL PROGRESS MADE IN CLARIFYING POSITIONS AND AGREEING ON HOW TO PROCEED WITH NEGOTIATIONS. EACH SIDE FOR THE MOST PART AVOIDED ARGUMENTATION OR COUNTER-PROPOSALS ON THE NUMBERS. TENTATIVELY AGREED TO RESUME NEGOTIATIONS IN GEORGETOWN WEEK OF DECEMBER 2 AFTER GOG RECEIVED COPY OF GERMAINE REPORT.

END SUMMARY.

1. NOVEMBER 21 MEETING ON REYNOLDS MATTER WAS HELD AT MINISTRY OF ENERGY AND NATURAL RESOURCES. PARTICIPANTS WERE MINISTER JACK, ATTORNEY GENERAL SHAHABUDEEN, MINMINES PERMSEC BARKER, A MINISTRY EMPLOYEE NOTETAKER, THE AMBASSADOR AND OPIC REP HUNT.

2. JACK'S OPENING REMARKS WERE TO EFFECT THAT ACTUAL NEGOTIATION OF COMPENSATION MUST AWAIT GOG RECEIPT OF GERMAINE REPORT FROM OPIC, BUT THAT THERE WERE SEVERAL POINTS ON WHICH POSITIONS MIGHT BE CLARIFIED. HE PROCEEDED DIRECTLY TO FIRST POINT, WHICH WAS  
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PAGE 02 GEORGE 02079 01 OF 02 251850Z

THAT INVENTORY OF MINED BAUXITE WAS NOT WANTED BY GOG AND SHOULD

NOT BE INCLUDED IN COMPENSATION CALCULATIONS. QUESTIONING ESTABLISHED THAT THESE ARE EXCEPTIONAL INVENTORY LEVELS BUILT UP DURING SUSPENSION OF SHIPMENTS. HUNT PROPOSED AS FIRST ORDER OF BUSINESS AN EFFORT TO WORK OUT ARRANGEMENTS TO RESUME SHIPMENTS DURING NEGOTIATIONS TO DEAL BOTH WITH INVENTORY BUILDUP AND EMPLOYMENT. JACK COMPLAINED OF REYNOLDS' "TELL US WHAT TO DO" APPROACH TO GOG, AS GOVT COULD NOT INITIATE A PROPOSAL WHEREBY SHIPMENTS COULD BE CONTINUED WITHOUT PAYMENT OF LEVY. HUNT EXPRESSED UNDERSTANDING OF GOG DIFFICULTY IN TAKING FIRST STEP HERE, GOT INDICATION FROM JACK THAT SOME SORT OF PARTIAL DEPOSIT WITHOUT PREJUDICE SHOULD BE ACCEPTABLE AND SAID THAT OPIC WOULD UNDERTAKE TO SET UP PROPOSAL FOR INTERIO ARRANGEMENTS FOR RESUMPTION OF SHIPMENTS.

3. NEXT ITEM DISCUSSED WAS SUBJECT OF PENSION FUNDS. JACK CONTRASTED REYNOLDS SITUATION WITH THAT OF ALCAN, WHICH INVOLVED A FUNDED WORLDWIDE CONTRIBUTORY PENSION PLAN AND THE PROBLEM OF BREAKING OUT THE PROPER AMOUNT FOR EMPLOYEES OF THE NATIONALIZED OPERATION. HE DESCRIBED REYNOLDS PLAN AS NON-CONTRIBUTORY AND SAID THAT REYNOLDS HAD RECEIVED CREDIT IN COMPUTATION OF GUYANA TAXES FOR PENSION AMOUNTS SET ASIDE. JACK INDICATED SOLE UNRESOLVED ISSUE IS CALCULATION OF PROPER AMOUNT TO BE TRANSFERRED INTO GUYANA AND THAT REYNOLDS AND GOG HAD ALREADY AGREED TO PRINCIPLE OF MAINTAINING SEPARATE DEPOSIT UNDER DUAL CONTROL. JACK NOT FULLY INFORMED ON ISSUE, HANDLED PRINCIPALLY BY MINISTRY OF FINANCE. HUNT ASKED FOR ANY AVAILABLE MINFIN REPORTS AND SAID OPIC WAS ALSO ASKING REYNOLDS FOR INFORMATION.

4. JACK SAID NEXT ISSUE TO BE "EXPLORED", AS GOG HAD NOT YET DECIDED ITS POSITION AND HE WAS THEREFORE NOT ADVANCING A PROPOSAL, WAS THE POSSIBILITY OF A LESS THAN 100 PERCENT ACQUISITION. HE RECALLED HUNT'S NEGATIVE REACTION TO THE GOLDBERG OPTION WHEREBY THE GOG WOULD ACQUIRE 51 PERCENT OF THE SHARES AND ASKED WHETHER THE KAISER-JAMAICA SETTLEMENT AND THE PROSPECT THAT REYNOLDS WOULD MAKE A SIMILAR DEAL IN JAMAICA MIGHT NOT HAVE A BEARING ON WHAT COULD BE DONE IN GUYANA. THE AMBASSADOR POINTED OUT THAT JAMAICA SEES ITS 51 PERCENT PARTICIPATION AS THE ARRANGEMENT TO BE OFFERED TO THE COMPANIES DEPENDENT ON JAMAICA FOR MORE THAN 60 PERCENT OF THEIR BAUXITE, AND THAT IT CANNOT CONTROL THE GUYANA

CONFIDENTIAL

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PAGE 03 GEORGE 02079 01 OF 02 251850Z

CASE WHERE NO COMPARABLE DEPENDENCE EXISTS. HUNT CONTRASTED OPIC'S WILLINGNESS TO INSURE NON-CONTROLLING AMERICAN INVESTMENT IN NEW VENTURES WITH ITS POSITION WITH RESPECT TO INVESTORS LATER BEING DEPRIVED OF CONTROL, OR WHERE PARTICIPATION IS A DEVICE FOR TAKE-OVER AT A CUT-RATE PRICE. JACK INDIRECTLY ACKNOWLEDGED THAT A 51 PERCENT STOCK INTEREST IS NOT A VERY REALISTIC POSSIBILITY.

5. JACK TURNED WITH MORE EMPHASIS TO THE IDEA THAT THE GOG MIGHT

NATIONALIZE ONLY THE MINING OPERATION ASSETS AT KWAKWANI, LEAVING REYNOLDS WITH THE KILNS, AND LOADING FACILITIES AT EVERTON WITH GOG LONG-TERM COMMITMENTS TO SUPPLY REYNOLDS NEEDS FOR ALL GRADES OF BAUXITE AT EVERTON. THIS WOULD PERMIT GUYANA TO CONCENTRATE ON INTEGRATING AN EXPANDED KWAKWANI MINING OPERATION WITH THE GUYBAU FACILITIES AT LINDEN, FOREGOING WHAT JACK TERMS THE RUN-DOWN, INEFFICIENT EVERTON FACILITIES. HUNT SAID THIS COULD BE EXPLORED WITH REYNOLDS, BUT THAT THE PROSPECTS FOR THEIR ACCEPTING SUCH AN ARRANGEMENT DO NOT SEEM GOOD. ABSENT AN ACCEPTABLE ARRANGEMENT, OPIC WOULD EXPECT COMPENSATION TO COVER ANY ASSETS WHOSE VALUE WAS DESTROYED BY THE SPLIT.

6. TURNING TO THE PRICE TO BE PAID, JACK SAID THAT THE GOG'S BASIC APPROACH IS THAT THE GOVT SHOULD NOT HAVE TO DIP INTO THE TREASURY TO PAY FOR THE NATIONALIZED OPERATION, AND THAT THE PRICE SHOULD THEREFORE REFLECT ITS DEMONSTRATED EARNING ABILITY, EVEN THOUGH THE GOG CREDIT IS BEHIND THE PAYMENTS. HE CITED PAST REYNOLDS GUYANA EARNINGS AVERAGING BELOW ONE MILLION US DOLS PER ANNUM AND CONTRASTED THESE WITH THE DOLS 2 MILLION PER ANNUM INSTALLMENTS UNDER A DOLS 14 MILLION SETTLEMENT PAYABLE OVER 10 YEARS AT 8 PERCENT. THE AMBASSADOR SUGGESTED THAT THE WRITE-OFF OF THE EXPANSION INVESTMENT MAY HAVE DEPRESSED EARNINGS IN THE YEARS JACK CITED. HUNT CITED THE MARKED PRICE INCREASE IN CHEMICAL GRADE AND CALCINED BAUXITE, PLUS THE ANTICIPATED RISE IN METALLURGICAL GRADE BAUXITE PRICES. HUNT ACKNOWLEDGED THAT EARNINGS ABILITY WOULD BE ONE OF THE FACTORS BEARING ON THE SETTLEMENT PRICE, BUT THAT ANOTHER, WHICH OPIC WOULD EMPHASIZE, WAS THE ACTUAL AMOUNT OF NEW INVESTMENT PUT IN UNDER THE INSURED POST-1965 EXPANSION.

7. ATTORNEY GENERAL SHAHABUDDIN NOTED THAT THE CROSS ACTIONS ON THE PRODUCTION LEVY ARE SCHEDULED FOR TRIAL COMMENCING DECEMBER 9. HUNT SAID THAT AN AGREEMENT IN PRINCIPLE AMONG OPIC, THE GOG AND REYNOLDS WOULD SUPPORT AN AGREED CONTINUANCE, WITH CONFIDENTIAL

CONFIDENTIAL

PAGE 04 GEORGE 02079 01 OF 02 251850Z

ALL SUITS BEING DISMISSED AS PART OF THE FINAL SETTLEMENT. JACK WONDERED WHETHER THE NEGOTIATING PARTIES SHOULD DEAL WITH THE LEMP AND TAX CLAIMS, WHICH WERE SUBJUDICE. HUNT EXPRESSED WILLINGNESS TO NEGOTIATE EITHER A "BOTTOM LINE" GUYANA LIABILITY, LEAVING ATTRIBUTION OF AMOUNTS TO COMPONENT ELEMENTS LARGELY TO GOG CONVENIENCE (AS THE GOLDBERG VARIATIONS HAD SUGGESTED) OR TO PURSUE AGREEMENT ON THE SEPARATE ELEMENTS, CONTINGENT ON SATISFACTORY AND SIMULTANEOUS RESOLUTION OF ALL ISSUES. KREBS

CONFIDENTIAL

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PAGE 01 GEORGE 02079 02 OF 02 221828Z

42

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

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O 221530Z NOV 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC IMMEDIATE 588

C O N F I D E N T I A L SECTION 2 OF 2 GEORGETOWN 2079

E.O. 11652: GDS

TAGS: EMIN, EINV, GY

SUBJECT: REYNOLDS

DEPT PASS OPIC

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8. JACK RESPONDED TO THIS INDIRECTLY, BY ADDRESSING THE MERITS OF THE PRODUCTION LEVY ISSUE, REFERRING TO THE DOLS 4 MILLION REYNOLDS OFFER AND NOTING THAT IT WAS CONDITIONED ON MAINTENANCE OF THE STATUS QUO FOR AT LEAST FIVE YEARS. HE EXPRESSED DOUBT AS TO WHETHER THE GOG WOULD NEGOTIATE WITH RESPECT TO THE EXERCISE OF ITS TAXING AUTHORITY, HUNT NOTED THAT IN LEGAL TERMS THE CHALLENGE OF THE PRODUCTION LEVY WOULD BE COMPROMISED ON THE BASIS OF THE AMBIGUOUS TERMS OF THE 1965 CONCESSION AGREEMENT PROVISIONS ON TAXES.

9. WITH RESPECT TO REASSESSMENT OF PRIOR YEAR TAXES, JACK SAID THAT, UNLIKE THE HONEST DIFFERENCE OF VIEW ON THE PRODUCTION LEVY, THIS CASE INVOLVES DELIBERATE UNDER-INVOICING BY REYNOLDS TO AVOID TAXES. HUNT SAID HE HAD ASKED IN SEPTEMBER FOR THE SPECIFIC STATEMENT OF CLAIM WHICH THE GOVT WAS TO FILE WITH THE COURT, AND HAD BEEN TOLD THAT AN EXTENSION OF FILING TIME HAD BEEN GRANTED. THE ATTORNEY GENERAL AGREED TO GIVE OPIC A COPY OF ANY STATEMENT FILED, IF REYNOLDS'S COUNSEL HAD NO OBJECTION.

10. HUNT ASKED FOR FURTHER CLARIFICATION OF THE PREVIOUS DAYS EXPLANATION OF THE SEVERANCE PAY ISSUE, NOTING THAT IT MAY NOT BE A MATTER THAT CAN BE HANDLED THROUGH THESE NEGOTIATIONS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 GEORGE 02079 02 OF 02 221828Z

IT WAS EXPLAINED THAT THE SEPARATED WORKER IS ENTITLED TO 60 PERCENT PAY AT THE RATE OF 3 WEEKS PAY FOR EACH YEAR OF SERVICE. JACK CLAIMS IT WOULD HAVE COST REYNOLDS LESS TO KEEP ALL EMPLOYEES AT FULL PAY THROUGH DECEMBER 31, UNLESS REYNOLDS EXPECTS THE GOG TO PICK UP THE TAB FOR THE LATER PORTION, WHICH IS AN UNWARRANTED ASSUMPTION. ASKED THE EFFECT ON THE SITUATION OF WORKER REINSTATEMENT, JACK INDICATED THAT TECHNICALLY REINSTATEMENT WOULD NOT AFFECT SEVERANCE PAY ENTITLEMENT, AND THAT THE UNION FIGHT FOR IT, BUT HE LEFT THE IMPRESSION THAT AN ADJUSTMENT WAS POSSIBLE.

11. JACK EXPRESSED READINESS TO PROCEED WITH NEGOTIATIONS WHEN THE GERMAINE REPORT IS RECEIVED, BUT THAT THE WEEK OF NOVEMBER 25 IS BAD FOR HIM. HUNT SUGGESTED THE WEEK OF DECEMBER 2 AND THIS WAS TENTATIVELY AGREED TO. JACK SEES NO PROBLEM WITH REYNOLDS OFFICIALS BEING PRESENT, EITHER AT THE TABLE OR AT HAND FOR CONSULTATION.  
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## Message Attributes

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